

Message Text

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SUBJ: COLOMBO COMMENTS ON ITALIAN ECONOMIC SITUATION

1. /SUMMARY/. IN A SPEECH IN MILAN ON JUNE 24 BEFORE A MEETING OF INTERNATIONAL MONETARY CONFERENCE, TREASURY MINISTER COLOMBO REFERRED TO "LOST TIME" TO DATE IN ADDRESSING URGENT PROBLEMS OF ECONOMY AND LAMENTED DELAY OCCASIONED BY POLITICAL PARTY DEBATES OVER APPROPRIATE ECONOMIC MEASURES TO ADOPT. COLOMBO SAID IT WOULD HAVE BEEN PREFERABLE TO PUT THIS LOST TIME TO BETTER ADVANTAGE IN ADOPTING QUICKLY ACTION PROGRAM RATHER THAN FOR POLITICAL LEADERS TO "LOSE THEMSELVES" IN DISCUSSIONS REGARDING THE ECONOMY WHICH NOT ALWAYS INSPIRED BY A REALISTIC UNDERSTANDING OF UNDERLYING PROBLEMS. /END SUMMARY/.

2. COLOMBO SAID THAT IN ABSENCE OF OTHER VIABLE POLICY ALTERNATIVES, GOI EARLIER THIS YEAR HAD BEEN FORCED TO RELY ON ADOPTION OF STRICT MONETARY POLICIES WHICH REPRESENTED SOLE METHOD AVAILABLE TO GOI TO BRING UNDER
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CONTROL THE RAPIDLY DETERIORATING ECONOMIC SITUATION.

COLOMBO CITED JANUARY-MAY 1974 CURRENT ACCOUNT DEFICIT OF 3,400 BILLION LIRE AND PROJECTED ANNUAL CURRENT ACCOUNT DEFICIT OF 7,000 BILLION LIRE AS EXAMPLE OF RAPIDLY WORSENING ECONOMIC SITUATION. ALSO SAID THAT ITALY UNHAPPILY IS "WINNING THE INTERNATIONAL INFLATION RACE" WITH CONSUMER PRICES IN ITALY HAVING RISEN BY 16.3 PERCENT IN YEAR ENDING APRIL 1974. ALSO CITED NEGATIVE IMPACT OF RAPIDLY RISING DOMESTIC PRICES ON COMPETITIVENESS OF ITALIAN GOODS IN WORLD MARKETS.

3. COLOMBO STATED THAT CONTINUED DETERIORATION OF BALANCE OF PAYMENTS AND PRICE PERFORMANCE WILL REQUIRE MORE DRACONIAN CORRECTIVE MEASURES THAN WOULD HAVE BEEN THE CASE 6 MONTHS AGO. HE SAID THAT AT BEGINNING OF YEAR, GOI CALCULATED THAT IT WOULD HAVE BEEN SUFFICIENT AS ANTI-CYCLICAL MEASURE TO INCREASE TAX REVENUES BY 500 BILLION LIRE TO REDUCE INTERNAL DEMAND, WHEREAS CURRENT WORSENERD SITUATION WILL REQUIRE NEW TAX MEASURES TO GENERATE 3,000 BILLION LIRE IN NEW REVENUES IN ORDER TO REDUCE INTERNAL DEMAND SUFFICIENTLY TO EASE PRESSURES ON BALANCE OF PAYMENTS AND PRICES.

4. COLOMBO STATED THAT INCREASE IN GOVERNMENT REVENUES WILL PERMIT MORE FLEXIBLE APPROACH ON MONETARY POLICY AS REGARDS CREDIT EXPANSION IN ECONOMY THAN WOULD HAVE BEEN THE CASE WITHOUT AGREEMENT BY POLITICAL PARTIES TO USE SUCH FISCAL TOOLS. HE NOTED THAT IN YEAR ENDING MARCH 1975 CREDIT POLICY WILL AIM AT STIMULATING NEW INVESTMENTS AMOUNTING TO 22,000 BILLION LIRE BUT THAT TOTAL CREDIT AVAILABLE IN ECONOMY WILL BE LIMITED TO 22,400 BILLION LIRE. CREDIT RESTRAINTS COULD BE REVIEWED AND MODIFIED SLIGHTLY BEARING IN MIND EXTENT OF PRODUCTIVE INVESTMENTS ACTUALLY UNDERTAKEN, PRICE PERFORMANCE, AND OVERALL BALANCE OF PAYMENTS SITUATION.

5. COLOMBO REFERRED TO FACT THAT IN 1973 PRIVATE CONSUMPTION AMOUNTED TO 52,000 BILLION LIRE AND CITED AS POSITIVE STEP THE RECENT AGREEMENT BY POLITICAL PARTIES TO POLICIES AIMED AT LIMITING INTERNAL DEMAND. HOWEVER, HE ALSO CALLED FOR GREATER SENSE OF RESPONSIBILITY BY PARLIAMENT, THE LABOR UNIONS AND INDUSTRY MANAGEMENT IN AWARDING FURTHER COUNTER-PRODUCTIVE PRESSURES ON DEMAND WHICH WOULD RESULT FROM LABOR

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STRIKES INFAVOR OF WAGE INCREASES. HOWEVER, HE CITED NEED TO DEFEND PURCHASING POWER OF LOW INCOME WORKERS. RE SPENDING BY PUBLIC ADMINISTRATION, COLOMBO CALLED ON STATE AND LOCAL ENTITIES TO AVOID PAST BAD HABITS OF PROGRAMMING THEIR INDEBTEDNESS WITHOUT BEARING IN MIND REAL RESOURCES OF COUNTRY AND AVAILABILITY OF PUBLIC SECTOR SAVINGS WITH WHICH TO COVER INDEBTEDNESS.VOLPE

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